

Message Text

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ACTION TRSE-00

INFO OCT-01 NEA-09 ISO-00 L-02 EB-07 /019 W

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R 041530Z FEB 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 1901

INFO DEPT TREASURY

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E.O. 11652: N/A

TAGS: EGEN EINV EG

SUBJECT: TAX TREATY

REF STATE 2658

1. EMBASSY HAS HAD NO SUCCESS IN REPEATED ATTEMPTS TO CONTACT HABIB. HIS OFFICE REPORTS THAT HE IS DEEPLY INVOLVED IN GOE'S EFFORTS TO REVISE TAX LAWS AND RELATED MATTERS. NUMEROUS REPORTS IN PRESS OF MEETINGS ON THIS ISSUE AT VERY HIGH LEVELS, WITH HABIB'S NAME SOMETIMES LISTED AMONG PARTICIPANTS, TEND TO BEAR OUT STORY OF HIS UNAVAILABILITY. (FYI, FORD FOUNDATION HAS BEEN HAVING SAME EXPERIENCE AND HAS "GIVEN UP" FOR THE TIME BEING.)

2. AS PREVIOUSLY REPORTED, WE DOUBT THAT EGYPTIANS HAVE BEEN GIVING HIGH PRIORITY TO DRAFT TREATY AS RESULT OTHER, MORE PRESSING DEMANDS ON THEIR TIME, AND FACT THAT NEED FOR TREATY IS NOT CLEAR TO THEM; IT FALLS INTO "NICE TO HAVE" CATEGORY. (NEITHER GOE NOR EMBASSY HAS EVER HAD QUESTION ON EXISTENCE OF TAX TREATY RAISED BY ANY OF MANY US FIRMS EXPLORING POSSIBILITY OF INVESTMENTS.)

3. WE HAVE POINTED OUT BOTH POLITICAL AND LONG-TERM ECONOMIC ADVANTAGES OF TAX TREATY IN CONVERSATIONS WITH GOE OFFICIALS, AND BELIEVE THAT AS PRESS OF OTHER ACTIVITIES DIMINISHES, HABIB WILL DEVOTE ATTENTION TO REVISED DRAFT THAT HAS BEEN PROVIDED BY TREASURY. COPY, WE UNDERSTAND, WAS ALSO GIVEN TO FORD FOUNDATION, ACTING

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AS ADVISORS TO GOE.

4. WITH REGARD TO FORD ROLE, THEY ARE PROVIDING WIDE RANGE INDEPENDENT ADVISORY SERVICES FOR EGYPT ON AN AS REQUESTED BASIS. WE HAVE IMPRESSION THAT SMITH HAS BEEN ACTING AS TOTALLY DISINTERESTED LEGAL COUNSEL, WHOSE INPUT HAS BEEN RESTRICTED TO EXPLAINING MEANING AND IMPLICATIONS OF TECHNICAL PORTIONS OF TREATY.

5. AS REFTEL NOTES, ONE OF PRINCIPAL STICKING POINTS HAS BEEN POSSIBILITY THAT US TAXES MIGHT TEND TO NEGATE INCENTIVE ASPECTS OF NEW INVESTMENT LAW. IN THIS CONNECTION, PRESS ARTICLES COVERING MEETINGS ON RESTRUCTURING TAXES HAVE MENTIONED GOE'S INTENTION TO INSURE THAT TAX INCENTIVES HERE DO NOT SERVE MERELY TO FEED TAX REVENUES IN ANOTHER COUNTRY. IT MAY BE THAT HESITATION NOTED IN NOVEMBER NEGOTIATIONS REFLECTED A MORE SERIOUS CONCERN THAN INITIALLY THOUGHT. GIVEN EGYPTIAN TENDENCY TO SAY YES IF THAT IS THE DESIRED ANSWER, EVEN WHEN THERE IS NO INTENTION OF DOING WHAT IS ASKED, IT MAY BE THAT EXTENT OF GOE'S MISGIVINGS OVER THIS IMPORTANT POINT IS DEEPER THAN THEY LET ON TO US.

6. EMBASSY WILL CONTINUE ITS EFFORTS TO OBTAIN AT LEAST A REACTION TO THE REVISED TREATY. WHENEVER WE HAVE OPPORTUNITY, WE SHALL ALSO URGE THE DESIRABILITY OF MOVING FORWARD WITH VIEW TO EARLY CONCLUSION OF TREATY.
EILTS

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